

# MAYOR & COUNCIL AGENDA COVER SHEET

**MEETING DATE:**

June 11, 2007

**CALL TO PODIUM:**

David B. Humpton, City Manager  
Tony Tomasello, Assistant City Manager

**RESPONSIBLE STAFF:**

David B. Humpton, City Manager  
Tony Tomasello, Assistant City Manager  
Harold Belton, Director of Finance

**AGENDA ITEM:**

(please check one)

	Presentation
	Proclamation/Certificate
	Appointment (Reappointments)
	Public Hearing
	Historic District
	Consent Item
	Ordinance
	Resolution
	Policy Discussion
<b>X</b>	Work Session Discussion Item
	Other:

**PUBLIC HEARING HISTORY:**

(Please complete this section if agenda item is a public hearing)

Introduced	
Advertised	
Hearing Date	
Record Held Open	
Policy Discussion	

**TITLE:**

Budget Work Session

**SUPPORTING BACKGROUND:**

Staff will be making a PowerPoint presentation on the following topics –

1. Future Budget Projections
2. Undesignated Fund Balance Policy
3. Clock Tower/Plaza Project
4. Homeownership Assistance Program

A memo providing additional background information relating to the presentation is attached.

The Mayor and City Council voted to close the record on the Budget Ordinance on Wednesday, June 13, 2007 at 5:00pm. The budget is scheduled to be adopted on Monday, June 18, 2007.

Attachments:

Memo to Mayor & City Council  
Undesignated Fund Balance Policy Memo  
PowerPoint Presentation

**DESIRED OUTCOME:**

Hear Presentation; Provide Guidance

Memorandum to: Mayor and City Council

From: David B. Humpton

Date: June 7, 2007

Re: June 11, 2007 Budget Work Session Presentation

---

At the work session of June 11, 2007 we will be discussing a number of topics including future budget projections, the undesignated fund balance policy, the clock tower/plaza project, and funding of a homeownership assistance program. The PowerPoint slides that will be used are included with this memo along with the work session cover sheet and a memo relating to the current undesignated fund balance policy. I wanted to summarize the points we intend to make in our presentation.

Future Budget Projections The presentation clearly outlines the fact that growth of the expenditure budget will need to be reigned in unless new revenue sources are identified. The current forecasts utilize too many undesignated funds to balance future budgets; indeed these funds would be totally depleted within the next few years. Historically, we have realized an annual “savings” by coming in under budget on expenses and over budget on revenue. Beginning with FY 2007, this is no longer the case.

Future budget numbers presented are conceptual but are based upon recent trends, an extremely robust Strategic Plan, and the need to maintain an ever-growing infrastructure inventory. For example, in developing the proposed FY 2008 plan I received requests from the various department heads for fifteen new employees and combined expenditure/capital requests of approximately \$60 million. All of the requests were reasonably related to Strategic Plan initiatives and/or the need to maintain the high level of service to residents that has been our tradition for decades. The budget team eventually trimmed almost \$10 million from the budget and proposed five new employees, but this illustrates that tough choices will need to be made in the years ahead – the budget will not be able to grow as it has in years past.

Undesignated Fund Balance As you know, this is a relatively new policy that has been in effect for about two years. I recommend that we reduce the current formula to 25% of the average of the previous three years’ budget. This is a reduction from the current 40%. Now that we have some experience with the policy, we feel comfortable with reducing it to a more reasonable level. The most likely expenditure scenario would be a severe weather emergency such as a tornado or hurricane.

Mayor and City Council

June 7, 2007

Page 2

Realistically, in a catastrophic event, the major responsibilities for restoration and recovery would fall to the State of Maryland, Montgomery County, FEMA, and/or the insurance companies. Additionally, the need to fund retiree healthcare was shifted to a trust fund (established under GASB 45) that will be funded out of contributions from the base expenditure budget.

In summary, even with this reduction in the policy, we would need to reduce future budgets from current expenditure forecasts to remain in compliance with the policy. In preparation for the FY 2009 proposed budget, staff will work to comprehensively review and re-prioritize the Strategic Plan. The results of this effort will be available prior to the Mayor and Council's next strategic planning process.

Clock Tower/Plaza Project Several options for funding this CIP are presented. I recommend that we utilize the third option, which involves transferring \$600,000 from the current Aquatic/Recreation Center CIP balance, and subsequently restoring that amount in FY 2009. Over the two fiscal years, there would be no net effect on the budget.

Homeownership Assistance Program The presentation identifies \$147,000 available in a current open Purchase Order that was created for the West Deer Park relocation effort. I recommend that the purchase order be cancelled and the funds be applied to a new line item in the FY 2008 Economic Development budget. We will be holding a work session on this topic in summer or fall of this year. If new homeownership initiatives are identified by the Mayor and Council, they will need to be funded out of Operating Contingency funds.

Cc: Tony Tomasello  
Harold Belton

Memorandum to: Dave Humpton  
From: Tony Tomasello  
Date: July 7, 2004  
Re: Undesignated Fund Balance

---

Pursuant to guidance staff received at the 2004 Mayor and Council retreat, we have been studying the possibility of implementing a policy regarding an appropriate level for our undesignated fund balance. This memo provides some background on the policies of other area jurisdictions, discusses factors considered in determining an appropriate level of reserves, and provides a recommendation you may wish to present to the Mayor and Council for further discussion.

Harold Belton collected data relating to the fund balance levels and policies of numerous jurisdictions throughout the region and these have been a very useful starting point for our analysis. The policies varied in both levels and methodologies, but all used either a percentage of revenues (for the current or previous year), or a percentage of the expenditure budget as the “benchmark”. Some examples of other local governments include –

- College Park, MD 25% of previous year’s expenditures
- Rockville, MD 15% of general fund revenue
- Bowie, MD 25% of current expenditures
- Leesburg, VA 10% of current expenditures

The City of Gaithersburg ended FY 2004 with an undesignated fund balance of approximately \$18 million. This represents about 52% of FY 2005 expenditures and 56% of FY 2005 general fund revenues (reappropriation is not included in general fund revenue). Clearly, we do carry a substantial undesignated fund balance relative to other local municipalities.

We have long-standing financial policies that affect our consideration of this issue. Obvious examples of these are our unchanging (and relatively low) tax rate and the absence of debt on our balance sheet. While these policies have served us well over the years, they also indicate a need to carry higher undesignated fund balances than municipalities that are willing to borrow or adjust tax rates as circumstances require. In the event of a major drain on our undesignated funds, the City will likely take longer to replenish its reserves without raising taxes or implementing drastic cuts to services.

Dave Humpton  
July 7, 2004  
Page 2

Additionally, many of the comparable policies were developed some time ago and may not address current needs adequately. Examples of several of these are –

- More frequent weather emergencies
- Possibility of homeland security emergencies
- Need to allocate increasing amounts for infrastructure projects
- Likelihood of a larger retiree pool in the near future

In developing this recommendation, we also considered the Mayor and Council's input relating to achieving a level of consistency relating to the fund balance. It is often difficult to predict the actual level of the fund going out more than a year or two because municipal revenues tend to be more volatile than other levels of government and because we rely on unspent budgeted amounts from previous years' to fund current activities. The actual amounts of the unspent funds are not known at the time we are developing the estimates we use at the retreats. This makes it especially difficult to program the CIP, which is presented as a six year plan. The Mayor and Council indicated that the policy should address this issue as well.

I feel that the following formula provides an acceptable level of reserves, acknowledges our unique financial situation, and offers a clear guideline to assist in planning future budgets -

$$\begin{array}{lcl} \textit{Undesignated} & & \textit{Average of Total City Expenditure} \\ \textit{Fund Balance} & = & \textit{Budgets for the Previous 3 Years} \quad X \quad 40\% \end{array}$$

If, for example, this formula were used in developing the FY 2006 budget, the undesignated fund balance would be planned to be approximately \$13.5 million at the end of that fiscal year; considerably lower than we currently carry but still a substantial level of reserve. As the budget increases, a simple calculation would tell us how much we need to keep in reserve from year to year. If an emergency or unforeseen expenditure depletes the balance below the recommended level, you would, in developing the next year's budget, develop and propose a plan for replenishing the fund. If the reserve grows above the policy limit, you would program the overage into future budgets.

I look forward to discussing this information with you. Please feel free to contact me with any questions or clarifications.

Cc: Harold Belton

**City of Gaithersburg**  
**Fiscal Year 2008**  
**“Budget Work Session”**

June 11, 2007



# Work Session Topics

- Future Budget Projections
- Undesignated Fund Balance Policy
- Clock Tower/Plaza Project
- Homeownership Assistance Program

# Future Budget Projections

- Methodology –
  - Review historic trends in major expense & revenue categories
  - Compare “Budget to Actual” data
  - Use January 2007 retreat and budget process as guidelines for projections re: staff and facility growth
- Prepare projections through 2013



# Budget Concepts

- City Charter requires a balanced budget
- “Anticipated revenue shall equal or exceed the total of the proposed expenditures”
- Re-Appropriation is treated as revenue

# Key Terms

- Undesignated Fund Balance
  - Reserve funds, not found in “designated” reserve accounts. Used for unexpected expenses, emergencies, revenue shortfalls. FY 2006 year-end balance was \$19.8mm
    - The City ended FY 2006 with “designated” (ie. Capital Projects, Vehicle Replacement, Post-Employment Benefit Plans, etc.) funds of approximately \$25mm
- Re-Appropriation
  - Budgeted allocation of undesignated funds used to balance an individual year’s budget (treated as revenue)
- “Savings”
  - Difference between annual actual revenues and actual expenses (calculated at year-end)

# “Budget vs. Actual”

- Historically, we have finished most (but not all) years under budget relative to expenses and over budget relative to revenues – resulting in a “savings”
- This “savings” is then added to the undesignated fund balance
- Trend is moving away from this
  - Tighter budgeting
  - Better forecasting
- Steady decline in “savings” in recent years
  - \$3.5 mm deficit projected for FY 2007

# Revenue Categories

- Taxes & Assessments
- Licenses & Permits
- Intergovernmental
- Charges for Service
- Fines, Investment & Miscellaneous

# Revenue Outlook

- Real Property base will continue strong expansion through assessment growth and additional construction
- License & Permits solid for next 2 to 4 years (starting FY 2009) due to number of approved developments
- Intergovernmental (excluding Income Tax) will peak in 2009 and 2010 unless new agreements are negotiated
- Charges for Service projected to grow from additional admissions and fee adjustments
- Fines, Investment & Miscellaneous should grow incrementally
- FY 2008 to FY 2013 growth  $\approx$  15%

# Expense Categories

- General Government (Finance, Human Resources, City Manager's Office, etc.)
- Public Safety
- Public Works
- Parks, Recreation & Culture
- Community Services & Development
- Non-Departmental

# Expense Outlook

- Support departments such as General Government, Finance & Administration, and Community Services are expected to grow only moderately
- Public Safety will show large increases from additional staffing, vehicles, technology, etc.
- Public Works will need substantial additional staff and equipment. The unprecedented infrastructure additions of the 1990's are nearing replacement/maintenance phases. Additionally, we expect to have 9 more miles of streets in the next 4 years.
- Parks, Recreation & Culture will incur substantial new staffing and operating expenses for the Aquatic/Recreation Center in 2010. Partially offset by increased admissions revenue
- Non-Departmental (excluding CIP) will need to allocate additional funds for Post-Employment Benefits (GASB 45)
- FY 2008 to FY 2013 growth  $\approx$  19%

# Capital Improvements Plan (CIP)

- Current expenditure levels are not sustainable
- Future CIP budgets will have substantial infrastructure maintenance costs that will need to be prioritized under GASB rules
- New initiatives will need to utilize remaining available funds



# Future Budget Projections (000's)

	Conceptual Budgets					
	2007	2008	2009	2010	2011	2012
Revenues	39,360	46,879	47,346	50,032	50,867	53,826
Expenses	42,865	50,402	55,607	57,033	55,642	57,486
Re-Appropriation	-3,505	-3,523	-8,261	-7,002	-4,774	-3,660
Projected Fund Balance	16,322	14,899*	6,638	-364	-5,138	-8,798

\*Includes previously budgeted funds from sale of property (\$2.1mm)

# Conclusions

- Main revenue categories are relatively strong
- Expenditure budget is growing more rapidly than in the past – outpacing revenue
- Unlikely that sufficient “savings” will be available to offset anticipated deficits
- Possible Options –
  - Revenue enhancements
  - Slowing of expenditure growth
  - Cancellation of programs or capital projects
  - Re-deployment of staff

# Undesignated Fund Balance (UFB)

- Recent Policy (2 Years)
- Formula-Based
  - 40% of a rolling average based on the previous 3 budgets
- How it works (current year example) –
  - Average of 2005, 2006 & 2007 expenditure budgets = \$40.54 million
  - 40% of that average = \$16.22 million
  - Projected year-end fund balance = \$16.32 million (11/07)
- FY 2008 not scheduled to be in compliance due to large CIP
  - Policy dictates that City Manager propose plan for replenishment of funds

# Undesignated Fund Balance

- Original policy acknowledged -
  - More frequent weather emergencies
  - Other emergencies
  - Volatility of outside funding sources
- Quite large relative to other jurisdictions
  - Lack of debt
  - Low tax rate
- Staff recommendation to lower policy

## Comparative Undesignated Fund Balances

	2008	2009	2010	2011	2012
40%	18,256	20,182	21,613	22,296	22,476
30%	13,692	15,136	16,210	16,722	16,857
25%	11,410	12,614	13,508	13,935	14,047
20%	9,128	10,091	10,807	11,148	11,238

# Proposed FY 2008 Budget – Current issues

---

- Clock Tower/Plaza Project
- Homeownership Assistance Program

# Clock Tower/Plaza Project (Options)

- Increase proposed FY 2008 budget by \$600,000 (Undesignated funds)
- Cut all or some of the needed amount from other FY 2008 budget initiatives and apply to this CIP
- Transfer \$600,000 from the current Aquatic/Recreation Center CIP fund balance and restore it in FY 2009

# Homeownership Assistance Program

- Pilot grant program was utilized at W. Deer Park Apartments project
  - \$220,000 was allocated out of anticipated permit revenues which were not received
  - \$10,000 & \$8,500 grants available depending on where resident moves
  - Seven residents were able to purchase homes
    - Three bought within the City and four in Montgomery County
- Discussion about adding \$250,000 to FY 2008 budget
- \$147,000 available in current Purchase Order
  - Line item to be created in FY 2008 Economic Development budget
- Work Session on this topic is being scheduled for August/September 2007



**City of Gaithersburg**  
**Fiscal Year 2008**  
**“Budget Work Session”**

June 11, 2007

